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C O N F I D E N T I A L ABUJA 002301

SIPDIS

E.O. 12958: DECL: 09/14/2011
TAGS: ECON EFIN PREL NI
SUBJECT: (C) NIGERIA'S IMF STAND-BY MAY NOT STAND

(U) Classified by CDA Timothy D. Andrews for reasons 1.5 (b) and (d).

¶1. (C) EconOff met 14 September with IMF team leader Hiroshi Hino to discuss progress on the mission's review of Nigeria's Stand-by Arrangement. According to Hino, the mission's "job is very difficult," adding "I will not be recommending an extension of the SBA nor a staff monitoring program to the Board." The IMF Board will decide by October whether waivers will be granted for unmet benchmarks, thereby enabling an extension of the SBA, or whether the IMF will discontinue its program with Nigeria altogether. Hino's recommendation will figure substantially in the Board's deliberations.

¶2. (C) Hino specified that although Nigeria had met the majority of the benchmarks, the GON had not made significant progress on the most important ones. Specifically, he said, first and foremost was spending: by end of June, GON capital spending stood at N160 billion with another N88 billion in warrants issued in August. The agreed targets established in March by the IMF review set a N240 billion cap on capital spending for the year. The IMF team's current projections predict that the GON will spend at least N320 billion on capital projects by year-end. Hino said that although the GON perceived its spending as restrained and constituting major progress toward the agreed target, "This performance is inadequate."

¶3. (C) The second critical, but unmet, benchmark is on reducing the spread between the official and parallel market rates to no more than 10 percent. As of September 13, the official rate stood at approximately N112 versus the parallel rate of N131, leaving a spread of 17 percent. Hino commented that they had seen virtually no efforts to eradicate the wide disparity between rates.

¶4. (C) The third unmet benchmark is on monetary policy performance -- the effectiveness of the Central Bank of Nigeria (CBN) to soak up excess liquidity caused by high capital expenditures. The CBN claims that its open market operations have had a positive net effect on market liquidity. However, Hino said, his team believed that the net effect of the CBN's activities in the market would reveal an overall negative impact on liquidity -- meaning that the CBN had purchased more notes and certificates than it had sold into the market. Finally, Hino pointed to the lack of progress since June on the civil service audit. He said that in June, the GON had completed 80 percent of this task, but had made no progress since then, particularly on the military and law enforcement agencies.

¶5. (C) Comment. Termination of the IMF program in Nigeria would clearly have serious consequences on the GON's external debt management vis-a-vis the Paris Club. Without an IMF program, the bilateral debt rescheduling process would not continue. More importantly, however, without the restraints placed on the GON by the IMF program, there would be even fewer incentives for the GON to practice fiscal and monetary discipline. Elections scheduled for April 2002 and the first part of 2003 will make it extremely difficult for the Obasanjo Administration to resist excessive spending. End Comment.
Andrews